

**REPORT OF THE AUDIT OF THE
CARROLL COUNTY
CLERK**

**For The Year Ended
December 31, 2002**



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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Gene McMurry, Carroll County Judge/Executive
Honorable Marketta K. Brock, Carroll County Clerk
Members of the Carroll County Fiscal Court

The enclosed report prepared by Kapp & Company, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the County Clerk of Carroll County, Kentucky, for the year ended December 31, 2002.

We engaged Kapp & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Kapp & Company, PLLC, evaluated the Carroll County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CARROLL COUNTY CLERK

**For The Year Ended
December 31, 2002**

Kapp & Company, PLLC has completed the Carroll County Clerk's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$39,758 from the prior calendar year, resulting in excess fees of \$923 as of December 31, 2002. Revenues increased by \$ 100,543 from the prior year and disbursements increased by \$139,183.

Debt Obligations:

The County Clerk's office is committed to a lease agreement for a copier. The total remaining balance of the agreement is \$4,797 as of December 31, 2002.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

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Kapp & Company, PLLC

Certified Public Accountants &
Business Advisors

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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Carroll County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
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In accordance with Government Auditing Standards, we have also issued our report dated July 30, 2003 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -
July 30, 2003

CARROLL COUNTY
MARKETTA K. BROCK, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

State:

Grants	\$ 11,380	
State Fees For Services	<u>4,237</u>	\$ 15,617

Fiscal Court		13,032
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$ 260,495
Usage Tax	1,911,038
Tangible Personal Property Tax	611,539
Miscellaneous	840

Licenses-

Fish and Game	2,295
Marriage	6,555
Occupational	75
Overage to be Returned	9,698

Deed Transfer Tax	20,363	
Delinquent Tax	<u>42,931</u>	2,865,829

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$ 7,574
Real Estate Mortgages	18,854
Chattel Mortgages and Financing Statements	34,478
Powers of Attorney	710
All Other Recordings	12,548

Charges for Other Services-

Candidate Filing Fees	2,320	
Loan Searches	1,270	
Postage	133	
Copywork	<u>2,663</u>	
		80,550

Other:

Returned Checks Paid	\$ 4,974	
Phone and Faxes	<u>121</u>	5,095

Interest Earned		1,232
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Borrowed Money		<u>6,000</u>
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Total Receipts		\$ 2,987,355
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The accompanying notes are an integral part of this financial statement.

CARROLL COUNTY
MARKETTA K. BROCK, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
For The Year Ended December 31, 2002
(Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 186,567

Usage Tax 1,850,494

Tangible Personal Property Tax 223,246

Licenses, Taxes, and Fees-

Fish and Game 2,254

Delinquent Tax 7,440

Legal Process Tax 8,568

Marriage License 2,565

Candidate Filing Fees 1,140 \$ 2,282,274

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 52,377

Delinquent Tax 4,217

Deed Transfer Tax 19,345

Ad Valorem Refunds 84 76,023

Payments to Other Districts:

Tangible Personal Property Tax \$ 311,431

Delinquent Tax 20,347 331,778

Payments to Sheriff

433

Payments to County Attorney

5,870

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 109,771

Employee Benefits-

Employer's Paid Health Insurance 21,497

Contracted Services-

Advertising 1,690

Printing and Binding 1,570

Election 10,392

Materials and Supplies-

Office Supplies 6,682

Other Charges-

Dues 828

Postage 3,942

The accompanying notes are an integral part of this financial statement.

CARROLL COUNTY
MARKETTA K. BROCK, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
For The Year Ended December 31, 2002
(Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges- (Continued)

Overage Returned	\$	8,603
Refunds		6,811
Repairs		2,157
Bad checks		5,821
Miscellaneous		121

Library and Archives		11,380
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Capital Outlay-

Office Equipment	<u>25,843</u>	\$ 217,108
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Debt Service:

Bank Notes	\$	6,000
Interest		55
Lease Purchases	<u>5,479</u>	<u>11,534</u>

Total Disbursements		<u>\$ 2,925,020</u>
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Net Receipts		\$ 62,335
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Less: Statutory Maximum		<u>57,812</u>
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Excess Fees		\$ 4,523
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Less: Expense Allowance		<u>3,600</u>
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Excess Fees Due County for 2002		\$ 923
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Payments to County Treasurer - February 4, 2003	\$	201
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July 30, 2002	<u>722</u>	<u>923</u>
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Balance Due at Completion of Audit		<u><u>\$ 0</u></u>
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The accompanying notes are an integral part of this financial statement.

CARROLL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months and 6.34 percent for the last six months of the year.

CARROLL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2002
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2002, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name, or provided surety bond which named the County Clerk as beneficiary/obligee on the bond.

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$11,380. Funds totaling \$11,380 were expended during calendar year 2002. There is no unexpended grant balance as of December 31, 2002.

Note 5. Lease

The office of the County Clerk is committed to a lease agreement with Canon Financial Services, Inc. for a copier. The agreement requires a monthly payment of \$240 for 24 months to be completed on September 30, 2004. The total remaining balance of the agreement is \$4,797 as of December 31, 2002.

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COMMENT AND RECOMMENDATION

CARROLL COUNTY
MARKETTA BROCK, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2002

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. However, the lack of segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Clerk should periodically agree daily tax collections totals to receipts ledger and deposit slip.
- The Clerk should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled.
- The Clerk should agree monthly tax reports to receipts ledger and disbursements ledger.

These reviews should be indicated with the Clerk's initials.

County Clerk's Response:

No response.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Carroll County Clerk for the year ended December 31, 2002, and have issued our report thereon dated July 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Carroll County Clerk's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Carroll County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

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Representative Office in the Principal Cities of the World*

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -
July 30, 2003

